

From: Peoples Bank, Mary Fowler
Subject: Reg I I - Debit card Interchange

Comments:

February 7, 2011

Jennifer J. Johnson
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Jennifer Johnson:

I am the CEO of a small family-owned bank, Peoples Bank, our assets are \$148 million. Our profits (ROA) are below the parameter set by the Arkansas State Bank Department. Our earnings are less than ideal as viewed by the FDIC. But we are one of the lucky ones. Our income is in the positive and not in the negative. If any organization in town is doing a fundraiser, we are expected to donate. We are great leaders and citizens of our community.

We are opposed to the proposed "Debit Card Interchange Fees and Routing" rule. Even if the small bank exemption worked and we were not affected at all, we are vigorously and fundamentally opposed to the idea of government-set prices. This is especially true when the price that is set does not cover costs. When the Durbin amendment was first proposed, I jokingly commented that it would be interesting if the Federal Reserve determined that interchange rates were too low and mandated an increase in fees. It's not so funny now that the proposed fees are far far short of covering our costs, which by the way are really impossible to determine.

Competitive forces drive our prices and products. Because of these forces, we offer and provide some free products and services to our customers which are loss leaders, and we finance those free services by charging fees for other services. Does anybody ever complain about getting services that cost A LOT for free? The market, consumer demand, and each individual business should determine what prices will be..NOT the government. Yet that is exactly what has been happening the last two years, and it's bad for everyone. The services we have been offering at no charge to our customers are the following:

Checking accounts

Paper statements by mail with images of checks

Online banking

Online bill pay (the hard charge we pay each month per account for this

\$5.95) Debit cards ATM service 24 hour voice response system Check cashing

Telephone transfers Unlimited assistance in person or on the phone with

problems Fraud resolution assistance Savings accounts with a \$200 minimum balance

If our interchange income gets reduced, we will be forced to charge for previously free services. When that starts, imagine the uproar when our customers start having to pay for things they are accustomed to getting free. Our small bank can't do much in the way of providing statistics, but we know that our costs from debit card fraud are mounting and could

possibly be on the verge of explosion. Stopping fraud is impossible; crooks come up with something new every day. Merchants enjoy protection from fraud for which we are footing the bill.

What has made banking so special that we are singled out and our charges and prices are legislated? Why not tell Wal Mart or Burger King how much they can charge for each thing they sell? It isn't like we are a monopoly, with some kind of unfair advantage or no competition. Our little bank has tremendous competition: three other strong banks, a credit union (with the advantage of not paying taxes), internet banks, Farm Credit, Farm Bureau Bank, State Farm Bank, Wal Mart money services, and other financial services firms.

For banks to be able to continue operating profitably, we need the free market to be dictating our prices and practices. We need government control out of interchange fees. Small banks just can't afford the costs of more regulation, especially when traditional income streams are being slowed or stopped. So you say, well, if you can't stand the heat... We say, we aren't the bad guys..we didn't cause the recession...we aren't the ones mistreating our customers..we don't deserve to be run out of business. When we give up and get out, it will reduce the competition, and everyone knows less competition means less pressure on keeping prices down.

If the agenda is to eliminate the too small to comply and the too small to make a profit, we are on the right track.

The Durbin Amendment is one of the most outrageous strikes against free enterprise in my lifetime. Is this really the direction we want to go, and where will it stop?

For the reasons stated above we are opposed to capping interchange fees at 7 or 12 cents. It will have a significant impact on our bank, our customers and our operations.

We are also opposed to the adoption of Alternative B for routing debit transactions. Alternative A is a more practical approach.

Thank you for the opportunity to comment on the Federal Reserve System's proposed "Debit Card Interchange Fees and Routing" rule.

Sincerely,

Mary Fowler
Peoples Bank